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## White House Memo Argues for Social Security Cuts

Note Aims at GOP Backers  
Of Private Accounts Alone;  
Threat to Party's Majority?

By JACKIE CALMES  
Staff Reporter of THE WALL STREET JOURNAL  
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WASHINGTON -- The White House, in a private memo to conservative allies, strongly argues that Social Security benefits paid to future retirees must be significantly reduced. The memo disputes those on the right who insist that creating private investment accounts is all that's needed to fix the retirement system.

To fail to make benefit cuts while diverting payroll taxes to workers' personal accounts, the memo argues, would be irresponsible and "have serious short-term economic consequences."

The memo<sup>1</sup>, contained in a Monday e-mail from Peter Wehner, President Bush's director of strategic initiatives, was marked "not for attribution." It reflects the White House's behind-the-scenes efforts to avert a split in Republican ranks over the politically charged Social Security issue. The Wall Street Journal reviewed a copy of the memo, which wasn't released publicly, and it's unclear how wide a distribution it had. There are indications that it went to legislators and a number of influential conservatives outside Congress.

### SOCIAL SECURITY REFORM

Read the full text of the memo<sup>2</sup> from Peter Wehner, Bush's director of strategic initiatives, on Social Security reform.

### GO FIGURE



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The costs of changing<sup>4</sup> -- or not changing -- Social Security.

For years, Mr. Bush has emphasized the upside of private accounts -- potential investment gains for workers. The memo goes beyond anything the president and his team have said publicly about the pain -- as lawmakers call benefit reductions -- that would accompany a Social Security fix.

"You may know," Mr. Wehner wrote, "that there is a small number of conservatives who prefer to push only for investment accounts and make no effort to adjust benefits." Calling that "a bad idea," he added, "We simply cannot solve the Social Security problem with Personal Retirement Accounts alone. If the goal is permanent solvency and sustainability -- as we believe it should be," such accounts "for all their virtues, are insufficient to that task."

The administration is trying to rally conservatives behind a plan that would let workers divert

payroll taxes to personal investment accounts, while shrinking Social Security benefits for future retirees. In doing so, officials seek to head off brewing opposition from some Republicans -- including former Reps. Jack Kemp and Newt Gingrich -- who favor only the accounts and insist that proposing benefit cuts invites electoral disaster. The same split divided Mr. Bush's administration in his first term, but he now has settled it.

Mr. Wehner didn't respond to a request for comment. Former House Speaker Gingrich, who begins next week promoting a new book that deals in part with Social Security privatization, said in an interview, "I can't imagine how you can sell a benefit cut in a partisan environment." And if Republicans do go along, Mr. Gingrich said he fears they could lose their 10-year-old majority in Congress.

Mr. Kemp, a former House Republican leader and his party's 1996 vice presidential candidate, was unavailable yesterday, but last month he wrote a column disparaging those in the White House and Congress who espouse benefit cuts as "Washington functionaries" who are "jeopardizing Social Security reform and ultimately endangering the Republican congressional majority."

Uniting his conservative base is a crucial first step as President Bush begins his public campaign to overhaul the nation's most popular program. Social Security will begin running a deficit by 2018 as demographic changes result in a diminishing number of workers paying the payroll taxes that finance retiree benefits for an expanding senior citizens' population. With most Democrats and the influential seniors' lobby AARP arrayed against him, the president needs a united Republican Party if he is to succeed at the top domestic priority of his second term.

Mr. Wehner cited the administration argument that the nation faces more than \$10 trillion in unfunded obligations for promised benefits. Allowing workers to divert a portion of their 12.4% Social Security payroll taxes to personal accounts would cost as much as an additional \$2 trillion in the first decade, Mr. Wehner acknowledged, because the government would have to make up the diverted payroll taxes to pay current retirees' benefits.

Reflecting the White House's druthers among cost-saving options, Mr. Wehner's memo, reported by CongressDaily, a twice-daily news service, advocates a change in the formula for how workers' initial Social Security benefits are calculated. Under current law, that calculation is based on a taxpayer's actual earnings for a given period and the overall rise of wages nationally. Once a worker is retired, benefit increases are tied to inflation under current law. The administration leans toward indexing workers' benefits to the inflation rate, which rises more slowly than wages.

"If we borrow \$1-2 trillion to cover transition costs for personal savings accounts and make no changes to wage indexing, we will have borrowed trillions and will still confront more than \$10 trillion in unfunded liabilities," the memo says. "This could easily cause an economic chain reaction: the markets go south, interest rates go up, and the economy stalls out."

Senate Republicans signaled their wariness yesterday in a private retreat on the year's legislative agenda with White House adviser Karl Rove. An attendee said the senators gave Mr. Rove "a subtle but clearly identifiable message that the GOP [Grand Old Party] would go along...but they were scared to death." The senators indicated that the president "had to step up his activity" to sell his initiative to Americans, which Mr. Rove said Mr. Bush would do. But the attendee said senators also warned the Social Security proposal "needed to be bipartisan or else no go."

Still, some Republicans are resigned to uniting behind the president, given his determination. "The president is going to go ahead," said Rep. Tom Cole of Oklahoma, a Republican leadership lieutenant. "He cannot afford to fail. It would have repercussions for the rest of his program, including foreign policy. We can't hand the president a defeat on his major domestic initiative at a time of war."

The political stakes were evident yesterday as national AARP officials met with reporters. Chief Executive William Novelli said opposing the diversion of payroll taxes to private accounts would be the seniors' lobby's top priority this year. Carving out private accounts would be "risky, hugely expensive and unnecessary," Mr. Novelli said.

He also said that doing away with the wage-indexing formula for benefits would be "draconian" for future retirees. While the current formula ensures that Social Security replaces, on average, about 40% of a retiree's income, Mr. Novelli said that substituting an inflation index for the wage index would cut that replacement rate nearly in half, according to Social Security Administration calculations. Legislative director John Rother said the group will propose cost-saving alternatives later this year, after ongoing consultations with members.

**Write to Jackie Calmes at [jackie.calmes@wsj.com](mailto:jackie.calmes@wsj.com)**<sup>5</sup>

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(5) <mailto:jackie.calmes@wsj.com>

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